

THE INTERDEPENDENCE OF DEMOCRACY AND CAPITALISM

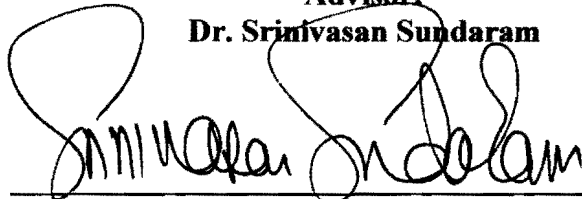
An Honors Thesis (HONRS 499)

by:

Kathryn M. Merritt

Advisor:

Dr. Srinivasan Sundaram



Ball State University

Muncie, Indiana

June 2006

Date of graduation: June 16, 2006

THE INTERDEPENDENCE OF DEMOCRACY AND CAPITALISM

ABSTRACT

The theories of democracy and capitalism exist and function independently, but nations that utilize both theories simultaneously have realized the greatest and most enduring success. Careful scrutiny of the United States, the preeminent example of the long-term synthesis of democracy and capitalism, and India, one of the world's oldest and largest democracies which has recently begun to combine capitalism with democracy, offers insights on the social and economic impact of capitalistic democracy. An in-depth history of the progress of these two nations provides the reasons each chose to utilize these forms of economic and governmental structures, along with the positive effects felt within and without each nation's borders. The effects of globalization and the exportation of the theory of capitalistic democracy are noted as each relates to other emerging nations such as China and the former Soviet nations that are currently embarking on various methods of integrating the theories into their current structures. A comprehensive review of evidence supports the theory of interdependence of democracy and capitalism and the overwhelming benefit each theory gains when it is simultaneously supported by the other.

ACKNOWLEDGEMENTS

I would like to thank Dr. Srinivasan Sundaram for his support and guidance regarding my Honors Thesis, *Interdependence of Democracy and Capitalism*. His insights on this project have been invaluable, especially regarding the global economic and political structures. Moreover, his continued encouragement over the course of my academic career has been gratifying, as I have always appreciated his wisdom and felt that I could trust his advise. I have sincerely appreciated Dr. Sundaram's talents as a student, and I look forward to future collaborations as I embark on my professional career.

SINCERELY,

KATHRYN M. MERRITT

THE INTERDEPENDENCE OF DEMOCRACY AND CAPITALISM

I. INTRODUCTION

Economists and sociologists have long argued not only the existence of a connection between the theories of capitalism and democracy but also the positive and negative value of such a connection. Economists Max Weber and Joseph Schumpeter insist capitalism and democracy are mutually supportive and dependent for a successful civilization. Democratic theorist Robert Dahl's book, *After The Revolution: Authority in a Good Society*, contends:

"It is an historical fact that modern democratic institutions... have existed only in countries with predominantly privately owned, market-oriented economies, or capitalism, if you prefer the name. It is also a fact that all 'socialist' countries with predominantly state-owned centrally directed economic orders command economies - have not enjoyed democratic governments, but have in fact been ruled by authoritarian dictatorships. It is also an historical fact that some 'capitalist' countries have also been, and are, ruled by authoritarian dictatorships" (Dahl, 86).

Plato discusses the basic concepts of capitalism from an ethical stance as he notes "A state, I said, arises, as I conceive, out of the needs of mankind; no one is self-sufficing, but all of us have many wants...[and] diversities of natures among us which are adapted to different occupations" (Plato, 331). Essentially, Plato recognizes that the division of labor, or specialization, would create trade that was beneficial not only to the society but also to the individual who found greater satisfaction doing work for which they were best suited. Aristotle also recognizes the necessity of division of labor and the use of barter and currency as he states, "The supply of men's needs came to depend on more foreign sources, as men began to import for themselves what they lacked, and to export what they had in superabundance; and in this way the use of a money currency was...instituted" (Aristotle, 374). Division of labor is the basic concept of capitalism, where specialization

creates trade for goods and services and a market economy is born. Regarding the theory of democracy, Plato is of the opinion that only the wisest persons of society should have ruling authority and the disintegration of Athenian society could be traced to the fact that amateurs were allowed to direct the government. In contrast, Aristotle held the idea “that the best political community is formed by citizens of the middle class [who are] less afflicted by envy than the poor and are more likely than the rich to view their fellow citizens as equals” (Aristotle, 376). While both Plato and Aristotle admire certain aspects of democracy in contrast to other forms of government, both are certain that democracy will decay into anarchy, as each individual attempts to inflict his free will on society. The theories of capitalism and democracy share similar values of individual responsibility, freedom, and personal reward. Democracy seeks to incorporate the majority of the citizens into the decision making process and provide protection and regulation for all citizens. Upon this basic premise, capitalism can flourish as private ownership is protected and a fair trading environment is created. Democracy provides an environment in which capitalism can thrive, while capitalism provides the incentive and reward to support and strengthen a democratic nation.

A. INDIA – AN EMERGING CAPITALISTIC DEMOCRACY

India is a nation that is currently embarked upon the task of combining democracy and capitalism in order to improve the lives of its citizens and to improve the economic situation and world status of the nation. Its long history has encompassed many forms of governmental control and economic policies, but its recent history places India as a relatively new democracy, after gaining independence from England as a Crown colony. Early in the nation’s independence, it practiced “State Capitalism”, with the state actively

involved in capitalistic ventures, but with little private ownership and strong governmental control. India is currently on the path to a free market economy and is experiencing the success true capitalism can bring while still suffering the economic burden created by the inefficiency of the past economic system and the stifling effects of long term colonization. The tremendous strides made in this democratic country since embracing free market capitalism provide convincing evidence of the power created by the harmonious blending of the principles of democracy with the principles of capitalism.

B. AMERICA – THE LEADING CAPITALISTIC DEMOCRACY

The United States of America is a nation that was founded on the principles of democracy and capitalism. While capitalism preceded true democracy in America's history, it would be difficult for a modern American to imagine embracing one concept without embracing the other. The rights and privileges of the individual have always been at the forefront of American ideals, which aligns completely with both concepts of democracy and capitalism. Americans cling tightly to the basic principle of private ownership of property, processes, and ideas, which is protected by the democratic process and funded by free market capitalism. While it is true that capitalism and democracy can be mutually exclusive, the United States is a shining example of the exponential power created by combining the two concepts and preserving the ideals of each over the long term. America is the most powerful, progressive, and wealthy society on the planet, and the freedoms of democracy coupled with the incentives of capitalism are the driving force behind the nation's success.

C. EMERGING MARKETS – BUDDING CAPITALISTIC DEMOCRACY

Emerging markets such as China and Russia are tentatively beginning to test the concepts that have created proven success in the United States and new economic growth and stability in India. More and more, oppressive forms of government are failing due to stagnant economies and upheaval among its citizens. The great socialist experiment has largely failed and is nearly extinct. The total lack of personal ownership and incentive led to the demise of most communist or socialist nations. While capitalists used to be considered greedy by socialist thinkers, in nations across the globe that are turning away from Communism and Socialism stark realization has occurred that working hard to better oneself frequently spills over and betters others along the way. “Greed” that derives from private ownership and hard work benefits society on a much grander scale than any form of socialism could hope to accomplish, as productivity is always increased by private ownership and increased individual productivity leads to greater abundance for the entire society. The overwhelming majority of nations that now hold world power embrace the ideals of democracy and free market capitalism because these practices have created stable, wealthy societies, which leads to economic and political dominance. Power that can be attributed only to size is no match for power that is derived from a stable society with incentive to succeed and grow. With globalization, emerging nations are exposed to all of the tools necessary to succeed, and according to Jagdish Bhagwati’s *In Defense of Globalization*, the effects of globalization should lead to economic improvement which instigates a burgeoning middle class that demands democratic rule. These countries exposed to globalization need to embrace the concepts that successful

nations have built upon; the combination of democracy and capitalism will provide the impetus needed to build a stable, powerful nation and eventually a more stable world.

II. A STUDY OF INDIA

One of the most notable emerging nations forging the connection between capitalism and democracy is India. As a nation, India has a 4000 year history of evolution and change, and is considered one of the world's oldest democracies. It is also the world's largest democracy with over one billion citizens, roughly one-sixth of the world's population. In the context of modern history, India has only gained political independence from British rule in 1947, making the nation a relative newcomer in current world politics. The country has a complex economic system which included global trade for centuries; furthermore, India utilizes a parliamentary system of democracy, modeled after the British structure imposed when England deemed India to be a Crown colony (Joti, 18-22). The two hundred years of British control over India have played a tremendous part in shaping India's current and future success, and also have a hand in the many problems plaguing the country's progress. Colonization, it seems, comes with a price.

A. INDIA – A CROWN COLONY

While a democratic society provides freedom and opportunity for its own members, democracies have also been known to take advantage of other societies if the opportunity arises to achieve monetary gain or power. Eighteenth century England was one such opportunistic democracy. England was in the midst of an industrial revolution and needed an avenue for natural resources as well as new markets to sell finished goods;

India was the perfect candidate. Early in the seventeenth century, the East India Company embarked upon trading activities with India, primarily hoping to sell British Broadcloth to the continent. The company found little market for its product, but it did find many Indian products that could be sold profitably back in England, especially the large supply of Indian cotton and tea. In 1617, the East India Company requested and received permission from India's Mughal Emperor to build a British factory in Surat, and by 1639 further British presence occurred with the founding of Fort Saint George and many more garrisoned factories (Singh, 135-37).

The East India Company worked hard to establish trading bases across the Indian coastline and developed a positive trading relationship with the Indian people, hiring and training Indian sepoys¹ to guard the British factories. As competition for the Indian products emerged from other traders, it became clear that a strong relationship was not enough to ensure profit; rather, political control would become necessary. England's control over India officially occurred in 1757 after the British victory in the Battle of Plessey, where Robert Clive led the forces of the East India Company against the army of Siraj-ud-daulah (Wolpert, 45-48). The East India Company was quickly transformed from a trade associate to a ruling authority over "British India". Over the years, more and more of the country was absorbed into British India, often by force, but sometimes due to the native ruler of a territory failing to produce a male heir to succeed to the throne. In 1857 the Indian Rebellion broke out with the Sepoy Mutiny as native Indians railed against British control. A great deal of land was reclaimed by the rebels, and tremendous losses occurred on both sides as violent battles were waged. By late 1857 British forces,

¹ A sepoy (from Persian *Sipāhi* meaning "soldier") was a native of India employed as a soldier by the British in the service of a European power.

aided by Indian collaborators, recaptured Delhi, and by mid-1858 the entire rebellion was contained. However, this forced the abolishment of the East India Company, and India officially came under British rule. It was established that India would become a Crown colony and would be governed directly by Parliament (Singh, 138-141).

The primary motive for the colonization of India was England's desire for economic profit, followed closely by a secondary motivation of nationalism. Many European nations felt the need to exhibit their world power by prevailing over foreign lands, especially after the French Revolution. While profit and nationalism were the underlying causes for colonization, many British justified the act with the idea of the "White Man's Burden". This "burden" essentially stated that people of the Caucasian race were supreme beings and as such, they should share their superior lifestyle and religion with the inferior people of the world. As stated by Englishmen Cecil Rhodes, "I contend that we Britons are the first race in the world, and the more of the world we inhabit, the better it is for the human race. I believe it is my duty to God, my Queen, and my country" ("Colonialism").

B. INDIA – A FREE AND INDEPENDENT NATION

India gained official independence from England on August 15, 1947, adopted a Parliamentary system based on the British model, and drafted a constitution that is one of the largest, most comprehensive constitutions in the world (Wolpert, 204-207).

However, the government often fails to live up to or enforce the ideals set forth in the constitution. While a colony, India's economy was basically a feudal system with enterprising natives trying to industrialize India in spite of the foreign rulers. Once

emancipated, India embarked on a form of “State capitalism” instead of true capitalism and a market driven economy. This economic plan was tempered by strong governmental control over private enterprise and prohibitive tariffs which restricted trade (Kelkar, 4). State Capitalism created little or no private ownership, which of course created little or no incentive for innovation or improvement. India desperately needs innovation and improvement because during the many years of colonization, India relied upon England for technological advances and many necessary manufactured goods. Once independent, India has failed to keep up with the progress made in the rest of the world as it no longer is able to rely on the lead of the British. After years of economic stagnation, India set five year plans for social and economic improvements which have largely gone unfulfilled as poverty is a still major hardship to a large percentage of the population. In recent history, India has begun to loosen governmental control on foreign capital and private enterprise and is moving toward an economic format more closely resembling the United States.

India’s move toward a western, free-market economy is an attempt to propel the country out of the economic stagnation often credited to the nation’s order of inception of the theories of democracy and capitalism. India presents a most unique melding of democracy and capitalism, with a remarkable difference from other countries embracing these theories. First and foremost, the order of the origination of each theory is reversed in India. In nearly every emerging nation that embraces democracy and capitalism, capitalism preceded democracy and burgeoning democratic ideals altered the nation’s existing capitalist practices. In India, however, the right to vote preceded capitalism, which may explain the slow reaction of the democratic nation to create the economic

reforms needed to spur and sustain growth, as regulations favoring free markets did not exist and necessary changes in laws and regulations are slow to occur. Starting with an economy based on capitalism provides the funding necessary for individuals to achieve personal success, which translates to societal success. Having this economic base in place gives democracy a chance to take hold and provide measurable benefit to all the members of society, as funding is available from free market activities to support the democratic government in its effort to perform the necessary public functions. The reversal of the order of inception of capitalism and democracy in India is likely to blame for the painfully slow growth of the overall Indian economy as the cumbersome social programs are deemed more important by the average citizens than progressive legal reform favoring free market capitalism and ultimately economic growth.

Conversely, the American economy expanded rapidly as the nation developed, as evidenced by the Industrial Revolution. Soon, democratic ideals expanded in response to the economic growing pains. Welfare, social, and regulatory reforms emerged to protect segments of society from greedy capitalistic harm. In contrast, India's democratic protectionism emerged long before the new capitalist economy had the chance to create an Industrial Revolution. In essence, the democracy in India had welfare, social, and regulatory protection in place prior to the existence of capitalism, and this has dramatically constrained the economic growth in the country (Kelkar, 7). Governmental bureaucracy is legendary in India, and the regulatory constraints are strangling growth and preventing the economic expansion that could propel every segment of the country forward both economically and socially. This bureaucratic choke-hold must be

completely dismantled in order for India to fully benefit from both democracy and capitalism.

In addition to a reversal in the order of the emergence of the theories of democracy and capitalism, India also seems to reverse the order of importance of the two theories as well. Other nations, including China and Southeast Asia, have begun to hone in on economic matters as the primary focus in media reports, national debates, and political agendas. India still places primary importance on political matters and traditionally considers economic matters as secondary (Das, “Democracy and Capitalism in India”). As India’s economy is increasingly tied to the West, this thought process may begin to reverse out of necessity and out of increased exposure to Western ideas. Currently, the mainstream population places primary importance on political and social agendas meant to provide food, housing, and education. The ordinary citizen needs to understand that a progressive capitalist economy will bring more investment into the country and will translate to more prosperity for their family than any social program could possibly provide. India must establish not only a means for the impoverished masses to improve their situation, but also a way to make the poor recognize the need to actively participate in improving their situation. A working infrastructure throughout the country would make great strides in bringing in more outside capital which could provide greater employment and assistance to the lower class. It will be important for the progressive segments of the Indian population to educate the masses as to the importance of economic growth and the benefits that will follow.

India has long been led by tradition, and tradition is a monumental wall to break through in order to allow positive economic change to occur. In the past, either the

tradition of the caste system or the authority of ruling parties determined a person's occupation. Today, the combination of democracy and a free market system allows individuals to pursue an occupation that is in their own best interests. Grasping this concept and making the most of it can be a daunting task because the power of the free market is invisible and complex as compared to the simplicity of the tradition of the caste system. Moreover, the disproportionately large segment of impoverished citizens in India creates a drag on economic progress, because they depend on the tradition of the governmental bureaucracy to provide for their meager existence. The older citizens have lived under a socialist structure, and continue to wait to be taken care of. Fortunately, approximately sixty percent of India's population is less than thirty years old, making them more accepting of positive change. Great strides will need to be made to completely converge the best of what democracy and capitalism have to offer, but the tools are available and progress is slowly occurring.

Further differences are also apparent in India as compared to other emerging countries. In contrast to Russia, India has a highly developed national trade market which dates back to the 17th century and became more integrated with the emergence of the railway system in the 19th century. And in contrast to China, India has a historically strong monetary system, which was further reformed into a modern banking system in the early 1900's. More importantly, unlike both Russia and China, India also has existing laws that clearly define property rights, and an entrepreneurial and professional class that is well versed in the English language (Das, "Democracy and Capitalism in India"). These differences are tremendously positive points that place India in the most competitive position in the global marketplace.

Another positive point is the fact that private ownership is replacing public control in many areas of the Indian economy, and in these areas improvements are staggering. The move toward an open form of capitalism is creating a sizeable middle and upper class consisting of entrepreneurs and professionals. The primary example of this improvement lies in the tertiary sector, which encompasses the technology field, where only twenty percent of India's workforce is employed but over forty-one percent of its GDP is created. Overall, India's economy still more closely resembles the economy of China than that of the United States, as it is largely based in the primary sector of agriculture. This is the sector in which over sixty percent of the Indian labor force is employed, yet only thirty percent of the GDP is created. In contrast, the United States employs only three percent of its workforce in the primary sector, yielding only two percent of the U.S. GDP ("The World Factbook: India").

India is a nation that embraces and supports the democratic process. In the 1998 election, over five thousand candidates vied for the votes of six-hundred million registered voters (Bouton, "The Thirteenth Election of India's Lok Sabha"). Voter turnout swelled to over sixty percent, an enviable number in the democratic nation of America. The fact that India is such a strong democracy coupled with its capitalistic economy make it an inviting host for foreign capital, as evidenced by the American firms of General Electric, Hewlett-Packard, IBM, American Express, and Dell employing over forty-five thousand Indians in their native country (Pink, "The New Face of the Silicon Age"). This has been a tremendous boon to the Indian economy as the standard of living for the employees has improved and the tax base has increased. One of the greatest strengths India has to offer in addition to its inviting political and economic structure of

democracy and capitalism is the fact that nearly every educated person in the country speaks English, and English replaced Persian as the official language of business in India.

There are, however, several issues that must be addressed if India wants to continue to grow as a world power. One primary concern for foreign companies looking to invest capital and resources in the nation is the lack of an adequate infrastructure. The airports, mass transit systems, communication systems, even the water and power supplies are dreadfully lacking in many areas. This is a major concern to foreign investors that needs to be addressed by the government if continued growth is to occur. The nation needs to create a positive international image to continue to attract foreign investment. If this can be accomplished, the combination of India's free market economy firmly rooted in a strong democracy will continue to foster improvements that could not otherwise be achieved, and the country will continue to progress economically and politically.

III. A STUDY OF THE UNITED STATES OF AMERICA

A prime example of a nation that has successfully incorporated both democracy and capitalism in order to build economic and political power is the United States of America. Upon the creation of the United States, the Founding Fathers set out to fashion a system of law that would govern a new nation. The creation of the Declaration of Independence, the Constitution, and subsequent amendments that became America's Bill of Rights laid the groundwork for the country's political, judicial, and even economic policies that have been instrumental in its growth, development, and ultimate success. By declaring independence in 1776, America's founders proclaimed the country's ultimate goals of life, liberty, and the pursuit of happiness. These goals continue to ring true for

Americans today. In 1787, the framers of America came together again to write the United States Constitution. By creating three branches of government - legislative, judicial and executive - the writers limited America's governmental power, leaving much faith in the "superior claims of human rights" (Greider, 268). The tenth Amendment in the Bill of Rights "establishes that those powers neither delegated to the federal government nor denied to the states are reserved to the states, and to the people" (Clarkson, 85). The tenth Amendment further establishes America's belief in its people and that our government should act through the people and for the people, rather than for the government.

The great works of European Enlightened thinkers were instrumental in shaping America's development and ultimate success. Adam Smith's influence on America's economic system continues to be seen today, as his ideas are directly linked to America's capitalist economic system, and more importantly, with a free market system. James A. Dorn of the Cato Institute quotes former Czech President Vaclav Havel, by saying, "the free market economy is the only natural economy, the only kind that makes sense, the only one that can lead to prosperity, because it is the only one that reflects the nature of life itself" (Dorn, "The Case for Market Liberalism"). Capitalism is an economic system that works because individual ownership of thoughts, ideas, patents, and processes creates individual responsibility for small successes that collectively create a successful economy and therefore a successful society.

The sensible American economic system of capitalism has emerged as the most successful economic model in the world, rooted in a democratic society. The United States of America has created a successful economy based on a free capitalist foundation

that in essence governs and regulates itself through the theories of supply and demand, competition, and consumer confidence; additionally tempered by democratic legislation. For more than two centuries, America has combined the concepts of democracy and capitalism in order to develop a society which supports both free enterprise by large corporations and just compensation for the individual. This process of individuals using hard work and innovation to better themselves has led to the improvement of society as a whole, and can only truly succeed in a democratic nation that supports capitalism. American capitalism is one in which friendly competition is encouraged, and people are motivated to work for everything they may want or need. The old adage, “there is no such thing as a free lunch”, has practical application when discussing America’s economic system. People in America are expected to work for what they have, and the democratic government supports this way of life. Democracy coupled with capitalism allows people to be rewarded for hard work and to feel achievement rather than guilt when breaking the bonds of economic status. The relationship that Americans have developed with capitalism and democracy is what has allowed the nation to be successful. Americans work hard and are secure in the knowledge that the government will protect the citizens from harm and reward hard work by allowing employers to compensate in a fair, just manner for the work performed. Americans have embraced the powers of both democracy and capitalism and the combination of these interdependent concepts has created the superpower known as The United States.

America’s economic strength has also given the country vast global power. Through globalization, democracy has morphed to encompass not only the nation, but also the nations that American industry infiltrates. Through the quest for the greatest

profit margin and maximum efficiency, the United States has moved into the global marketplace, thus allowing its citizens to experience an even more diverse culture, while allowing the citizens of the world to witness capitalism and democracy at work together. This global marketplace has, however, created resentment amongst some in the United States, as they see jobs being outsourced to locations that provide “cheap” foreign labor. These workers blame the greedy “big business” owners for destroying their livelihood, while in reality, the business owner is only acting in the most prudent manner, by pursuing the lowest cost options in order to create wealth for his or her shareholders. Furthermore, in a “flat” world, this outsourcing allows American firms to become more efficient, thus providing avenues to grow the business (Friedman, 124). Fortunately, the concept of capitalism based in a democratic nation allows for solutions to evolve. Democracy assures every individual the right to lead any life they choose, and capitalism provides the means to achieve the dream. As President Clinton once said, “Our democracy...is the engine of our own renewal. There is nothing wrong with America that cannot be fixed by what is right with America” (“The Great American Experiment”). While accepting changes in economic status, demand, and opportunity may be difficult and at times cause conflicts to arise that question the “fairness” of capitalism, in the end, as enlightened theorists assert, progress will occur. As Americans realize that education and skill are necessary for achievement, they will move toward utilizing the tools provided by living in a democratic society. Part of the beauty of capitalism is the fact that many individuals have become wealthy by taking advantage of the capitalistic system, and a good portion of them feel a need or desire to contribute in some way to people less fortunate. This leads to financial and educational support for people with a

desire to improve their situation. While the greed of capitalism may have been responsible for displacing a segment of workers, the benevolence of individual capitalists provides avenues to improve the lives of displaced workers.

Capitalism must not be seen as developing cold, uncaring individuals. Rather, capitalism must be seen as an avenue for those who succeed to have been given the means and motivation to give back to those still struggling. America's system of capitalism encompasses and encourages philanthropy, as the tax system is structured to reward individuals who give back to their communities and the world around them. American democracy can be credited with tempering "pure" capitalism, encouraging individuals to think outside themselves and take a sense of responsibility for the prosperity of their nation. America's democracy, coupled with its capitalistic spirit have allowed the American people, the true life force of American government, to take control of not only their individual lives, but more importantly, have an impact on the world around them. Without this interconnection of democracy and capitalism, the American people would not be able to affect change on a small or large scale.

While the pains created by an economy in transition are frequently soothed by philanthropic efforts, fair questions can be raised regarding the rationalization behind the economic flux. The deciding factors leading to American industrialization and technological innovation are bottom line profit and overall efficiency. Certainly, however, such innovation added more to American life than merely profit and efficiency. Without these two factors, the motivation to invent and develop new procedures and products would be much less prevalent. From this, one could argue that without America's capitalistic, profit driven idealism, America would not have achieved its

current level of success. If capitalism were not an integral part of American's lives, production and industry would not have grown and developed and ultimately America would not be the leading economic and technological power in the world. In addition, Americans' lives would not have benefited from the tremendous advances that capitalism in a free market has created. Without the personal, individual benefits provided by the capitalistic economy, rewards would not be available for invention, innovation, improvement, efficiency, or even hard work. American society and the entire world would be diminished without the individual desire spurred by the rewards of capitalism.

Just as America's capitalistic democracy has improved the lives of its citizens, it has also positively impacted the lives of global citizens. The wealth that capitalism has brought to America allows corporations to conduct business with nations across the globe, of both similar and different political and economic structures. This trade has enriched American and foreign lives as both companies, and thus its stakeholders, become wealthier monetarily and culturally. Furthermore, the wealth that capitalism has created in America allows both the United States government and its citizens to contribute to foreign nations in need. While many argue that as one of the richest nations, the United States of America could "do more", the billions in aid contributed annually has greatly altered the globe. Through the delicate blending of democracy and capitalism, not only have Americans benefited, but more importantly, the world has been made greater. Only when the tenets of democracy support the principles of capitalism can a nation and its citizens be made richer, thus providing resources to support the needs of other nations.

IV. WORLD EXPANSION OF CAPITALISTIC DEMOCRACY

As both America and India continue to blend capitalism and democracy in order to create strong, powerful nations, the world around these two nations continues to change. As Thomas Friedman explains, the world changed dramatically on November 9, 1989, the day the Berlin Wall came down. This single event had perhaps the greatest impact on the civilized world and how its citizens now viewed democracy and capitalism. As socialism and communism became failed experiments, the world suddenly realized how crucial a free government and capitalistic ideals were to a nation. Friedman explains, "If you were not a democracy or a democratizing society, if you continued to hold fast to highly regulated or centrally planned economics, you were seen as being on the wrong side of history" (Friedman, 49). People across the globe realized that democracy was a necessary ideal to embrace, however, many nations did not know how to integrate democracy into their current political realm. Furthermore, many rejected the inequality that is associated with capitalism, as Friedman explains, "Communism was a great system for making people equally poor... capitalism made people unequally rich" (Friedman, 49).

A. CHINA – THE INTRODUCTION OF CAPITALISM

Perhaps the greatest example of a nation realizing the need to replace a communist system with a free market system is China. As China becomes a dominant global economic power, it continues to experience problems as it attempts to wear both hats as a capitalist economy and also a communist nation. Because the government in China controls the majority of its industry, China will never be able to achieve the

greatness that America has experienced because the governmental control hinders further economic growth and prosperity. As James A. Dorn stated in his article “The Tao of Adam Smith”, “China’s goal of building a socialist market economy is a grand illusion. Market socialism ... is destined to fail. The reason is simple: Without widespread private property, economic decisions - especially investment decisions - will continue to be political decisions and be subject to the corrupting influence of government power” (Dorn, “The Tao of Adam Smith”). In even the most ideal communist country, people are not motivated to work for themselves because the government provides the necessities and rations the finances to those in need – from each according to talent, to each according to need, as Karl Marx so aptly stated. This lack of ownership creates a lack of incentive for improvement, and succeeds only in creating equal poverty and oppression for all.

Distribution in the communist or socialist form is extremely ineffective, as it stifles creativity and desire. Under both a communistic and socialistic regime people are not encouraged to better themselves because the government will provide for them only according to their need. No matter how hard an individual works in one of these countries, the compensation will not increase or decrease. Karl Marx believed that the socialist/communist system was the ideal, as he felt it gave the working class or the proletariat the power. While the belief of “for the greatest good” is a utopian thought, as the world has seen, people are not able to rule collectively and the distribution of wealth is not equal when left to the belief of “to each according to need.” In order for an economy to run effectively and efficiently, its people must be inspired and motivated. Unlike in a communist régime, democracy allows for authority to come from the bottom

up, allowing people to control their own lives, thus motivating them to better themselves and the world around them. The world will continue to watch China's integration of capitalism and its effect on the current political structure of the nation.

B. THE EFFECTS OF GLOBALIZATION

While democracy and capitalism have always been intrinsically linked for modern Americans, for the citizens of many emerging nations such as Russia, India, and China, the concepts of democracy and capitalism are slowly developing as the world continues to flatten. For these nations, capitalism is crucial in order to develop and grow their position in the world; however, many of them are continuing to struggle as they attempt to morph not only their economic system, but more importantly, their citizens' belief systems. Technology has removed many barriers to communication as countries and cultures that were once isolated are now interacting with nations across the globe. This interaction has encouraged trade which aids in emerging countries' development. The problem occurs when such nations attempt to compete in the global marketplace. As Joseph Stiglitz describes in *Globalization and its Discontents*, these nations attempt to grow and compete too quickly, as they ignore crucial sequencing and pacing necessary for sustainable growth. Stiglitz explains,

“it is the mistakes in sequencing and pacing, and the failure to be sensitive to the broader social context, that have received the most attention – forcing liberalization before safety nets were put in place, before there was an adequate regulatory framework, before the countries could withstand the adverse consequences of the sudden changes in market sentiment that are part and parcel of modern capitalism; forcing policies that led to job destruction before the essentials for job creation were in place; forcing privatization before there were adequate competition and regulatory frameworks. Many of the sequencing mistakes and political processes, misunderstandings that were particularly associated with those who believed in market fundamentalism” (Stiglitz ,73).

While it is undeniable that international trade has allowed emerging nations to grow more quickly than they otherwise would have done, these countries must be aware of the problems associated with globalization if they do not take the time to develop the necessary infrastructure by establishing a solid framework on which to build an open economy and a free society. Stiglitz further explains,

“The most successful developing countries, those in East Asia, opened themselves to the outside world but did so slowly and in a sequenced way. These countries took advantage of globalization to expand their exports and grew faster as a result. But they dropped protective barriers carefully and systematically, phasing them out only when new jobs were created. They ensured that there was capital available for new job and enterprise creation; and they even took an entrepreneurial role in promoting new enterprises. China is just dismantling its trade barriers, twenty years after its march to the market began, a period in which it grew extremely rapidly” (Stiglitz, 60).

C. FORMER COMMUNIST NATIONS EMBRACING DEMOCRACY AND CAPITALISM

While China has managed to control its entrance into the global marketplace through slow incorporation, Russia and its former communist nations have struggled to transition from communism to a market economy. By rushing the transition, Russia and other former Soviet block countries failed to develop the proper banking and legal institutions which would allow for loans to be made and contracts to be enforced. Stiglitz states, “it takes capital and entrepreneurship to create new firms and jobs, and in developing countries there is often a shortage of the latter, due to lack of education, and of the former, due to lack of bank financing” (Stiglitz, 59). Russia suffered such a fate, as its “shock therapy” approach to transformation resulted in a lack of necessary institutions. Russia’s transitional difficulties are perhaps further complicated by its citizens resistance to change, as they were forced to shift from a centrally controlled system to a free-market economy. As the economic system shifted, Russia’s overall

Gross Domestic Product fell dramatically which contributed to a deterioration in the standard of living for Russian society. Understandably, people who had lived and prospered under communist rule rejected the idea of a capitalistic democracy as they now felt as though they were being left behind. Russia's government faces a daunting challenge of proving to its citizens that democracy and capitalism will end in a more fruitful, productive economy and a greater standard of living for all Russians. While Russia and many other Eastern Block nations struggle to discover the delicate balance and proper integration of democracy and capitalism necessary for a successful economy, over time the combination of these two concepts eventually meld and harmonize. Perhaps as the world continues to flatten and nations across the globe connect, transitional governments will learn from and avoid many of the pitfalls the Eastern Block countries have fallen prey to as they attempt to find the ideal blend of democracy and capitalism.

As the world has seen, globalization furthers democracy both directly by allowing individuals to “bypass the dominant classes and castes by taking their produce directly to the market thanks to modern information technology, thereby loosening the control of these traditionally hegemonic groups”, and indirectly by altering the class structure (Bhagwati, 93). As Jagdish Bhagwati so aptly argues in *In Defense of Globalization*, “globalization leads to prosperity, and prosperity in turn leads to democratization of politics with the rise of the middle class” (Bhagwati, 94). This theory is true; however, as the world has seen, the sequencing of the events is crucial to the success of the emerging nations. While Russia embarked on political freedom and democracy (glasnost) before establishing perestroika, or economic restructuring, China insisted on economic change,

introducing capitalism while continuing to function under communistic political policies. Seymore Martin Lipset, a famed American political scientist and author of *Some Social Requisites of Democracy*, would contend that China's actions were superior as the economic boon will create a middle class which in turn will provoke the eventual need for democracy. This theory that democracy is established with the help of an emerging middle class was further supported when China became a candidate for entry into the World Trade Organization. As three prominent American politicians explain:

“Congressman Tom Delay confidently asserted, Entrepreneurs, once condemned as ‘counter-revolutionaries’, are now the instruments of reform.... [T]his middle class will eventually demand broad acceptance of democratic values. President Bill Clinton, also supporting China's entry, argued that as China's people become more mobile, prosperous, and aware of alternative ways of life, they will seek greater say in the decisions that affect their lives. President George W. Bush has also spoken in the same vein: It is important for us to trade with China to encourage the growth of an entrepreneurial class [because when we do this] you'll be amazed at how soon democracy will come” (Bhagwati, 94).

China has implemented economic change in advance of political change, but the question remains as to whether the nation intends for democracy to eventually develop or if democracy will develop purely as a result of positive economic change, against the Communist rulers' will. It remains to be seen to what extent China will allow private ownership to expand in their economy, as this could be a determining factor in the pace of political change. The fact that economic change is currently producing positive results will no doubt lead to political change, and China will continue to grow as an economic and political power in the world.

V. THE NECESSITY OF A MIXED ECONOMY

China is realizing the success that can be gained by “mixing” its economy with the introduction of capitalism. Other emerging nations continue on the path to

capitalism, and while many in the world point to the United States and modern India as examples of capitalist economies, in reality they both utilize a system of “mixed” economies where private ownership is stressed but public ownership is also a necessity. In India, public ownership had been stressed over private ownership in the past, but the reverse is beginning to exist due to the failure of dominant public ownership to provide growth or stability to the citizens or to the nation. In the United States, private ownership has always been the dominant theme, but public spending by federal, state, and local governments constitutes a huge percentage of the GDP. This form of representative democracy creates the necessity for public spending in order to support the governmental structure. One must not forget, however, that the public spending budget derives from tax dollars collected from private capitalist ventures of the citizens of the democracy. The democracy is the chosen form of government and the democratic method allows the free citizens to pursue their chosen endeavors while capitalism provides the avenue of reward by which the free citizens improve their own lives and provide funding for the governmental structure in the form of taxes. The combination of capitalism and democracy also provides the means for a majority of citizens of a nation to move beyond meeting their basic needs for survival. Economic success in a free society gives citizens a new commodity: free time. Free time can be used by the citizens in a democracy in any manner they choose such as continuing their education, promoting a cause, or volunteering, all of which add to the stability and the value of the nation and reinforce the support of democracy. The discretionary income created by capitalism can also be factored into the commodity of free time. When citizens have both free time and extra income available, spending increases on discretionary items and further fuels the

economy of the nation. The economy grows in new sectors, providing further economic stability that would not be possible in an oppressed society or without a free market economy. Democracy allows the freedom necessary to succeed, capitalism provides the opportunity for financial success, and the financial rewards of capitalism are funneled back into the governmental structure, thereby strengthening and improving the foundation of democracy.

VI. CONCLUSION

Democracy can exist and succeed without capitalism, and capitalism can exist and succeed without democracy, but the combination of the two theories builds a never-ending circle of support that is unmatched. The liberty provided by democracy is the fuel for successful capitalistic endeavors. The financial rewards provided by capitalism maintain and support the citizens of the democracy and the governmental structure itself. The ultimate growth and success of one theory is truly dependent on the ultimate growth and success of the other, as is evidenced by the long term success of the United States, the recent growth in India, and the unprecedented number of nations gravitating toward capitalistic democracy. A democracy provides stability to a nation by creating a majority of content, successful citizens. In oppressive forms of government, citizens are constantly battling against the constraints placed upon them in order to improve their own individual circumstances, which detracts from both the stability and the productivity of the nation and keeps the nation from flourishing economically. A sound economy provides the capital necessary for a nation to gain stability and influence in the world, and if a nation cannot succeed economically its power is diminished and the nation is undermined both economically and politically. In a democracy, all citizens immediately

have the right to improve their individual circumstance, so there is no effort wasted on fighting against oppression; the effort can be put to productive use to benefit the individual and ultimately the democracy. As each citizen finds success through capitalism, the nation is strengthened economically and politically. Of course, not all citizens in a democracy have the ability or the desire to improve their circumstance, and some would say they would be better served in a socialistic structure. In reality, this problem is also remedied more effectively in a capitalistic democracy because the financial rewards created in countries like the United States lead to philanthropic efforts to aid the underprivileged, in addition to governmental social programs funded by the taxes of those achieving higher levels of success.

Not only do the two theories of capitalism and democracy feed each other, they are delicately intertwined in many ways. Capitalism revolves around ownership and control of an asset. Democracy is the only form of government to provide individual ownership and control to all citizens, and therefore the only form of government that could support capitalism to the greatest extent. The risks required for success would only be undertaken by an individual or group that stands to fully benefit from the rewards of ownership and control. The added benefit of this system is that while individual success is the right and the goal of each citizen, each individual success actually helps to improve the status of all other citizens and the nation as a whole. The capitalistic structure encourages risk and provides reward; as individuals succeed they are rewarded economically; in turn the nation is rewarded economically in the form of taxes; other citizens are also benefited from the increased tax base, the philanthropic efforts of the successful individual, and often from the product or service provided by the successful

individual. The economic strength generated through these efforts translates to political power and continued strength and growth for the democracy. The interlocking and interdependent theories of democracy and capitalism move hand in hand to create strength politically and economically, and the proof can be seen in the overwhelming success of the United States, the burgeoning success of India and other emerging nations, and the mass defection away from socialism and communism. Democracy and capitalism have become synonymous with wealth and power in today's world, and nations across the globe are adopting these theories and attempting to find the correct mix of political and economic theories. Democracy fuels capitalism and capitalism funds and strengthens democracy making this combination of theories a political and economic circle of success that seems likely to continue to spread around the globe, strengthening not only each participatory nation, but more importantly every nation in the entire world.

Works Cited

- Aristotle, "Politics." Classics of Western Thought: The Ancient World. Ed. Donald S. Gochberg. Harbor Drive, Florida: Harcourt Brace & Company, 1992.
- Bhagwati, Jagdish. In Defense of Globalization. New York, NY: Oxford University Press, Inc., 2004.
- Bouton, Marshall M. . "The Thirteenth Election of India's Lok Sabha (House of the People) ." Asian Society
<http://www.asiasociety.org/publications/indian_elections.13.a.html> 9 May 2006.
- Clarkson, Kenneth, Roger Miller, Gaylord Jentz, and Frank Cross. West's Business Law. 9th Edition. Ohio: Thomson Learning, 2004.
- "Colonialism." Encyclopedia Britannica. 1999-2000. 19 April 2006 .
- Conlin, Michelle. "The Top Givers." *BusinessWeek* 29 November 2004: 87.
- Das, Gurcharan. "Democracy and Capitalism in India." 11 May 2003.
<<http://www.theglobalist.com/DBWeb/printStoryId.aspx?StoryId=2987>>
19 April 2006.
- Dorn, James A. "The Case for Market Liberalism." *The Cato Institute*. 20 January 2004. <<http://www.cato.org/dailys/01-20-04.html>> 6 March 2006.
- Dorn, James A. "The Tao of Adam Smith." *The Cato Institute*. 19 August 1997.
<<http://www.cato.org/dailys/8-19-97.html>> 6 March 2006.
- Friedman, Thomas L. The World is Flat: A Brief History of the Twenty-First Century. New York, NY: Farrar, Straus, and Giroux, 2005.
- "The Great American Experiment: A Juxtaposition of Capitalism and Democracy."
Milton S. Eisenhower Symposium. <<http://www.jhu.edu/mse/theme.html>>
6 March 2006.
- Greider, William. The Soul of Capitalism: Opening Paths to a Moral Economy. New York: Simon and Schuster, 2003.
- Kelkar, Vijay, Ajay Shah. "India's economic future."
Moving beyond state capitalism (2005): 5.
- Pink, Daniel H. "The New Face of the Silicon Age: How India became the capital of the computing revolution". Wired Digital, Inc. February 2004
<http://www.wired.com/wired/archive/12.02/india_pr.html> 18 April 2006.

Plato, "Republic." Classics of Western Thought: The Ancient World. Ed. Donald S. Gochberg. Harbor Drive, Florida: Harcourt Brace & Company, 1992.

Ravallion, Martin. "1996 Abstracts of Current Studies: Poverty and Social Welfare." Poverty in India, 1950-1990: A Dynamic Analysis of the Determinants of the Distribution of Household Consumption Ref. No. 677-82C 19 April 2006
<<http://www.worldbank.org/html/dec/Publications/Abstracts96/01pov/pov02.html>>

Sekhon, Joti. Modern India. New York, NY: The McGraw-Hill Companies, Inc., 2000.

Singh, Khushwant. India: An Introduction. 2nd. New Delhi, India: Vision Books Pvt. Ltd., 1998.

Stiglitz, Joseph E. Globalization and its Discontents. New York, NY: W.W. Norton & Company, Inc., 2003.

Wolpert, Stanley A. India. Updated Edition. London, England: University of California Press, Ltd., 1991.

"The World Factbook: India." CIA - The World Factbook. 20 April 2006. Central Intelligence Agency.
<<http://www.cia.gov/cia/publications/factbook/geos/in.html#Intro>>. 6 March 2006